Economic Policy as Two-Faced Lunacy

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Here's the story so far – in the 4th quarter of 2019 the GDP declined, and somewhere in America that December the first person was stricken with a new virus that spread around the country and world. The production side of the economy was stifled as all effort was focused on fighting the pandemic which has killed more than 600 thousand Americans and almost 2 million people worldwide. But while the real economy remained dormant the unreal sector quickly came to 'life and' long before we exited the pandemic was regularly breaching market records.

As the crisis showed definite signs of receding into the past, the real economy began to get on its feet and rise from its depressed state. But instead of that being described as merely a recovery to a pre-existing state it was touted as a robust booming economy fully in command on the road to growth. Then in mid-March it began slowing significantly. Interest rates were expected to rise substantially, and much was said about a plan to prevent the stagflation of the 70's, but rates have remained within norms. And then the dollar began to weaken which doesn't happen in a robust economy. That led serious financial types to buy into cryptocurrencies in case the dollar collapsed. Imagine trillions being sunk into a 'currency' that has no legal standing!

The latest retail sales report was a 1.6% decline from the previous 0.9% growth. Initial jobless claims rose by 37,000 from the previous report and the continuing jobless numbers remained at 3.52 million. But the markets haven't taken any notice that an economy that can justify the absurd stock values will not happen.

There has been an ongoing heated debate between those who think the Fed should increase interest rates to cool an overheated economy, and those giving priority to the real economy which is still stuck in an ice age. On Thursday Powell announced that adjustments will be made by the end of 2023 regarding interest rates – currently at a virtual zero – and possibly even the Feds $120 billion monthly purchases of Treasury securities and Mortgage Backed Securities. The markets frowned on that news, but today when Fed banker Bullard predicted the first cut in late next year the markets had a fairly large downturn with the DJIA losing more than 500 points.

It’s possible that the Fed announcements will never get beyond mere words because if put into effect as stated without genuine strength in the real economy it will mean that the economy as a whole will have been flipped on its head. Rather than a strong real economy to provide for the real needs of real people, priority is given to paper valuations and exchange. Powell is saying rates will have to rise above the current zero so that there can be stimulating rate cuts possible for the next recession. Actually nothing the Fed does with respect to the real economy actually has much effect. The problems in the economy are deep and cannot be fixed with a superficial numbers game.

It’s presented as a real mystery why we have so many youth suicides and opioid abuse, and currently a mass shooting every day or two. In a society that is unfit for human habitation people will take extreme measures to escape from it. And they get no help from adults because they haven’t will to make the necessary changes.

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